



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kim Walesh
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: November 24, 2014

Approved

Date

12/4/14

COUNCIL DISTRICT: 3

SUBJECT: APPROVAL OF A PURCHASE AND SALE AGREEMENT AND A DEVELOPMENT AGREEMENT WITH JACKSON TAYLOR PARTNERS LLC FOR THE SALE OF THE CITY'S 5.22 ACRE FORMER CORPORATION YARD LOCATED IN JAPANTOWN ON JACKSON STREET BETWEEN SIXTH AND SEVENTH STREETS AND APPROPRIATION ACTIONS

RECOMMENDATION

- (a) Adopt a resolution:
 - (1) Declaring approximately 5.22 acres of City owned property between Taylor and Jackson Street between Sixth and Seventh Streets, Assessors Parcel Number (APN) 249-39-039, surplus to the needs of the City;
 - (2) Approving a Purchase and Sale Agreement with Jackson Taylor Partners LLC for the sale of the City's 5.22 acre Former Corporation Yard located in Japantown between Taylor and Jackson Street between Sixth and Seventh Streets in the amount of \$18.5 million; and
 - (3) Authorizing the City Manager or his designee to execute the Purchase and Sale Agreement, the deed and all other documents necessary to complete the transaction.
- (b) Consideration of an ordinance to approve a Development Agreement between Jackson Taylor Partners, LLC, and the City of San José to develop between 425 to 600 multi-family attached residential units and between 16,000 and 25,000 square feet of commercial space for mixed-use development consistent with the provisions of the Japantown Corporation Yard Redevelopment Project Final Environmental Impact Report, Jackson-Taylor Residential Strategy, and Envision San José 2040 General Plan on a 5.25 gross acre site bounded by N. Sixth Street, E. Taylor Street, N. Seventh Street, and Jackson Street (696 N. Sixth Street).

- (c) Direct City Manager to set aside \$750,000 for parking assistance for the Creative Center for the Arts and \$250,000 for a two-year pilot parking program within Japantown subsequent to the receipt of funds from the Purchase and Sale Agreement.
- (d) Adopt the following 2014-2015 Appropriation Ordinance and Funding Sources Resolution amendments in the General Fund:
 - (1) Increase the estimate for Other Revenue by \$65,000; and
 - (2) Increase the appropriation to the Office of Economic Development for Non-Personal/Equipment in the amount of \$65,000.

OUTCOME

Sale of the Japantown Corporation Yard with the approval of the related Development Agreement will eliminate blight on a long-vacant central site, further the vitality of the Japantown district, and bring closure to a significant project planning and community engagement effort that has been ongoing since 2003. The development proposal for the site includes 425-600 rental housing units, up to 25,000 square feet of retail development, a minimum 0.75 acre park and 0.75 acres of land intended to be home to San Jose Taiko and the Creative Center for the Arts (CCA).

EXECUTIVE SUMMARY

Jackson Taylor Partners LLC is a joint venture of Williams/Dame and the Related Company, that have partnered to propose a development for the Japantown Corporation Yard that would fulfill a number of community goals. The developer would pay the City \$18.5 million for the 5.22 acre site. The project would incorporate up to 600 apartment units, up to 25,000 square feet of retail space, a minimum 0.75 acre turn-key park and a 0.75 acre parcel for a permanent home for Taiko and the Creative Center for the Arts (Performance Center Site) or a similar community purpose organization. The project includes roughly 650 parking spaces, 600 underground spaces and 50 spaces at grade. The plan achieves a 1.4 per unit parking ratio and is "self-parked" for the housing and retail components of the project. Parking has not yet been determined for the Performance Center Site. The proposal allows Taiko and CCA a six-year period in which to develop the Performance Center Site. The CCA is intended to be self-sustaining. The Developer will provide the land for CCA and Taiko by transferring the Performance Center Site to the City at the closing. CCA intends to raise grant funds for the construction. Space leased to arts entrepreneurs will supplement on-going operations costs. If after the six years a project has not commenced construction, the Developers have an option to re-purchase the Performance Center Site.

The development of the Corporation Yard site has been a community goal that began in 2003. Two recessions and the end of the Redevelopment Agency have delayed project development until now. The partnership between the Developers, particularly Williams/Dame and the community, has been extremely collaborative and positive. More than 100 community meetings

have been held over the life the project and the current proposal reflects the values and goals expressed by the community. Parking remains a significant issue for Japantown, even though the Related and Williams/Dame project is self-parked. There is an opportunity to further collaborate with stakeholders in Japantown to create community-led parking solutions that can be a model for future development in Urban Village Areas. Staff recommends allocating \$250,000 from sale proceeds for Japantown to explore and implement additional parking solutions. Staff further recommends setting aside \$750,000 from sale proceeds to assist in providing parking for the Taiko/CCA building. Should the Taiko/CCA building not develop, the revenues would revert to the General Fund.

BACKGROUND

Planning for the sale of the City's Japantown Main Corporation Yard in the center of Japantown stretches back to the late 1980's when the City began evaluating the need for larger and more modern Yard space. At that time, it was also recognized that Japantown--long home to industrial and canning operations--would undergo significant change as the canning industry ceased operations in San Jose. Staff recognized that the City's Main Corporation Yard was not an appropriate neighbor in what would become a largely residential neighborhood. Early analysis identified that the costs to relocate the Main Yard would be high and that the required site clean-up would be expensive due to the presence of numerous underground storage tanks containing petroleum and solvents.

In 1990, ten underground petroleum tanks were removed from the site. Two were found to have leaked, causing significant contamination to the underlying soil and groundwater, primarily beneath the central and southern portion of the property. Between 1990 and 2008, numerous soil and groundwater investigations were performed to assess the extent of contamination. In 2009, remediation was performed to reduce the level of petroleum contamination in the groundwater to acceptable concentrations.

After one year of monitoring to confirm that groundwater contamination remained at acceptable levels, the Santa Clara County Health Department closed the fuel leak case with no future action required other than to contact the County in the event of development activities that might disturb residual soil or groundwater contamination. As part of the closure process, the City shared the proposed development plans with County Health, who confirmed the proposed residential use was acceptable.

The City's move from the Japantown Corporation Yard to the Central Services Yard occurred in two phases: Phase I included the purchase of the Central Service Yard property and initial construction, which was financed by a bond issuance of \$24.9 million in 1993. Phase II was completed in 2007-2008 and entailed the expansion of the Central Services Yard, the relocation of remaining operations, and the demolition and cleanup of the Japantown Yard. The total cost for Phase II was \$32.2 million, of which approximately \$25 million was financed by the issuance of commercial paper. The debt service obligations for both phases are assigned to the Service Yards Construction and Conveyance (C&C) Tax Fund.

As plans for the relocation of the City's Main Yard evolved, plans for new development at the site located between Jackson Street, Taylor Street, Sixth and Seventh Streets began to take shape, led by the Redevelopment Agency.

A summary of actions specifically related to the history of the efforts to redevelop the Japantown Corporation Yard is as follows:

- In 2001 the California Legislature passed Senate Bill 307 (Vasconcellos), creating a planning framework for the preservation of California's three remaining historic Japantowns.
- In 2002 the San Jose Japantown Community Congress (JCCsj) developed seven guiding principles that stressed the importance of the development of the Corporation Yard, and the involvement of the community in the process.
- In 2003 the City Council and Redevelopment Agency applied for State grants and designated the JCCsj for consultation on Japantown preservation as specified by SB 307.
- In 2004 the Mayor and Council directed development of a plan for the relocation of existing uses to the Central Service Yard (CSY) on Senter Road. Relocation of the Corporation Yard enabled redevelopment of the site as a central part of Japantown.
- In 2005 the community and staff engaged in crafting a Request for Qualifications (RFQ) and subsequent selection of the Olson Company and First Community Housing as Corporation Yard developers.
- In March 2006 the City and Redevelopment Agency, with the JCCsj, convened a 20-member community task force to define priorities for the Japantown development.
- In late 2006, due to a slow-down in the economy, Olson informed the City and Agency that they would not proceed with the Japantown development.
- In 2007 a new RFQ was developed and Williams/Dame Development from Portland was selected to develop the Japantown Corporation Yard.
- In 2009, due to further decline in the economy, Williams/Dame indicated they could not move forward with the proposed development.

In early 2013, City staff contacted Williams/Dame and reopened discussions to develop the Japantown Corporation Yard. As mentioned above, Williams/Dame was previously selected through a Request for Proposals process by the community and the Redevelopment Agency. The City Council approved a non-binding Term Sheet with Williams/Dame February 2013. The Council authorized staff to move forward with non-binding and non-exclusive discussions with Williams/Dame under Section 4.20.100 of the Municipal Code which allows a negotiated sale of property for economic development purposes. In its current state the vacant Corporation Yard is unsightly and does not provide a positive impact on Japantown. A high quality development will make a substantial economic impact on Japantown and add jobs, revenues and a highly desirable

gathering space to one of San Jose's unique neighborhoods. In late 2013, Williams/Dame and Related agreed to partner to purchase the property and construct the project.

ANALYSIS

Surplus Property Sale

In preparation for Council's consideration to declare the subject property as surplus to the needs of the City, Real Estate staff has reviewed a preliminary title report confirming City's ownership of the property, and ordered an appraisal report from Carneghi and Partners, Inc. on October 1, 2014. Further, Real Estate staff has also communicated with applicable City departments, including Planning, Building, and Code Enforcement, Housing, and Parks, Recreation, and Neighborhood Services, to determine whether there is any current or intended future municipal use of the property. Apart from the economic development, and park and performance center purposes described, no such current or intended future municipal use of the property has been identified. Therefore, staff is recommending that City Council determine that the proposed sale property is not needed for or adaptable to City use.

On August 28, 2014, in accordance with California Government Code Section 54222(d), staff prepared and distributed the notification to local agencies of the availability of the Japantown Corporation Yard property for the development of housing for persons and families of low or moderate income; park and recreation open space; and public school and/or enterprise zone purposes. Staff received one response from the County Office of Education out of the 54222(d) notification letters sent. Staff contacted the County Office of Education on numerous occasions after the original phone call and has not received any response.

Japantown is a distinctive, increasingly active neighborhood and one of three remaining Japantowns in the nation. The community continues to add residents and new retail offerings. Diverse residents and visitors are drawn by the mix of new and older homes, an authentic commercial street, and the neighborhood's proximity to Downtown and light rail. BART will open in nearby Berryessa in 2017. The neighborhood is home to a unique set of architecture and a variety of residential options that bring old and new together.

San Jose's Japantown is unique in that it combines the distinct history of Japanese culture and that of a very significant component of Chinese culture, referred to as Heinlenville. Japantown includes a diverse set of art, entertainment, cultural, and religious offerings. Institutions in the area include the Japanese American Museum, the Buddhist Temple, and San Jose Taiko. San Jose Taiko is a regional and national treasure and the only San Jose-based performing group with regular national tours.

Japantown is home to many festivals and events that celebrate community. Major festivals include Obon (every July), Nikkei Matsuri (every Spring) and Aki Matsuri (every Fall) and a newer festival, The Spirit of Japantown Festival (also in the Fall). In addition, there are events

that are open to the public at Art Object Gallery and various street venues, including a year-round Certified Farmers Market run by the Japantown Business Association.

Guiding Principles for Redevelopment of the Corporation Yard

People in and around Japantown care deeply about their community and are active volunteers giving voice to how to enrich and enliven the area. Since the community and City undertook the Jackson/Taylor Revitalization Strategy in the 1990's, community leaders have given strong and consistent voice to the values and principles that shape Japantown's development. In March 2006, City and Agency staff and the Japantown Community Congress convened a community task force to develop the principles by which the Corporation Yard redevelopment would take place.

Overall Objective: Create a lively, walkable place with community gathering spaces, homes for seniors and young families, active retail, and cultural activities. The design and function for the development should honor the rich heritage and history of the site and the community.

Create a "Great Good Place" in the heart of Japantown: Create distinctive informal gathering places. The "Great Good Place" is a venue for people to hang out and experience Japantown.

Honor Seniors: The Japantown community sees its seniors as living treasures. Honoring and respecting seniors is deeply rooted in the values and culture. The elders provide a tangible link to the past.

Attract young people and families: The project should welcome young people and families and include uses and spaces that encourage them to come and stay to help create the future.

Activate the site with retail: The Business District is central to the identity of Japantown. The walkable authentic feel of the Japantown Business District is intended to be continued and extended with new retail.

Weave in cultural space and activities: Cultural activities and events is part of the regular life of Japantown. The developer should seek to create space that supports community gathering. The design should connect with the rest of Japantown and the culture and history of Japantown.

Parking: The expressed goal of joint City and community efforts on parking was to create an overall approach to parking that supports retail, church and other neighborhood uses.

Establish a Senior Wellness and Youth Center at the Boys and Girls Club site: In order to further honor seniors and support youth, provide a facility that can support both communities.

These principles guided the approach and development of the proposed project. The guiding principles were so well understood and agreed upon that even though the first Olson project and the first effort by Williams/Dame stopped due to economic forces, the community and the City

worked to ensure major milestones of the guiding principles were implemented despite the delay in the project. These include:

Honoring Seniors: The senior housing component of the project is currently under construction. The 75 number of unit project is anticipated to be completed by the end of 2015.

Akiyama Wellness Center: The Boys and Girls Club is now home to a renovated and upgraded facility that contributes to the health and well-being of the community.

Arts and Cultural Space: the City/Agency created a series of historical bench markers that commemorate significant people and events in Japantown.

Parking: The City previously spent approximately \$60,000 dollars to install a temporary 60-space parking lot on a portion of the Corporation Yard site.

Current Development Proposal

The initial project was formulated when the Redevelopment Agency was active and a substantial subsidy of about \$7 million was set aside for the project. Initial plans for project development included over 600 units of housing including two 13-story towers, up to 15,000 square feet of retail development, a 200-seat performing arts center and a one-acre park.

In 2013, Williams/Dame re-engaged with the community about potential development on the Corporation Yard site. The community was concerned about the large number of units, specifically the proposed height, and associated parking and traffic issues. The Developers reformulated the project concept in response to the Guiding Principles developed by the community.

The current project description calls for 425-600 apartment units in two buildings of up to six stories and 525,000 sq. ft. of residential rental, up to 25,000 square feet of retail, 650 parking spaces (600 underground and 50 surface spaces), a minimum 0.75 acre park intending to have an outdoor performing space, and transfer of 0.75 acre Performance Center Site back to the City for development and use by a nonprofit third party to build the CCA and permanent home for Taiko. The CCA facility is intended include a practice facility for Taiko, office space for Silicon Valley Creates and potentially other community based organizations, and leased office and meeting space for artists and creative entrepreneurs. Project proponents, led by Silicon Valley Creates (formerly the Santa Clara County Arts Council) intend to obtain grants to design and build the CCA building on the Performance Center Site.

Key Terms of Purchase and Sale Agreement and Development Agreement

Purchase and Sale Agreement

Two agreements are proposed for City Council approval to authorize the project moving forward: a Purchase and Sale Agreement and a Development Agreement.

The following key terms are included in the Purchase and Sale Agreement:

Price: The purchase price for the Property is \$18,500,000 or \$81.40 per square foot.

Deposit: Within 10 days of the effective date, the developer shall deliver to the Title Company earnest money in the amount of \$250,000, which the title Company shall deposit in an interest bearing account. The payment shall be non-refundable to the Developer except in certain specific instances.

Closing Payment: The balance of the Purchase Price shall be paid in cash on the Closing Date. For budgetary planning purposes, receipt of sale proceeds are forecasted to occur in 2015-2016.

Park: The Developer commits to providing for the development of a minimum 0.75 acre park. Development of the park will be governed by a Parkland Agreement and negotiated with the Department of Parks and Recreation prior to the approval of a parcel map for the project.

Financing Contingency: The Developer's obligation to purchase the Property shall be conditioned upon the Developer obtaining financing in amounts and terms acceptable to the Developer in the Developer's sole and absolute discretion on or before the expiration of the Entitlements Contingency Period.

FEMA: The Parties acknowledge that the Property is currently listed by the Federal Emergency Management Agency as within a 100-year floodplain. The Developer must have conditional assurances prior to closing on the property that FEMA will approve a plan to remove the Property from such listing. The Developer anticipates receiving the FEMA letter after submittal of the parcel map of the project.

General Contingency Period: The Developer may terminate the Agreement for any reason upon written notice to the Seller on or before 5:00 pm on the last day of the General Contingency Period.

Entitlements Contingency Period: The Developer may terminate the Agreement on or before 5:00 pm on the last day of the Entitlements Contingency Period, June 30, 2016.

As Is Purchase: Indemnity and Release Agreement: The Developer acknowledges and agrees that the Developer is purchasing an "AS IS WITH ALL FAULTS" basis, with only limited representations from the City (based on actual knowledge of staff). The Developer indemnifies and releases the City from claims arising out of the condition of the development parcels, with certain exceptions, including an exception for injuries arising prior to the transfer.

Assignment: Successors and Assigns: Prior to commencement of project grading work, developer may assign its rights under the purchase agreement only with City approval (in the case of a non-affiliated assignee), or to an affiliate.

Entitlement Processing; Development Covenants: The Developer has until June 30, 2016 to complete all required entitlement for the project, subject to certain extensions for matters beyond the Developer's control. The Developer shall complete construction of the project in accordance with the development timeline described further below, although the Developer has expressed a desire to construct the two phases closely together. Additionally, no use of the property other than the project substantially consistent with the entitlements shall be permitted, which restriction will expire once the Developer has obtained a temporary certificate of occupancy, or its equivalent, for at least four hundred twenty-five (425) residential units and fifteen thousand (15,000) square feet of retail space on the property substantially consistent with the entitlements.

Reimbursement Agreement: The Developer acknowledges and agrees that the City undertook analysis to complete California Environmental Quality Act (CEQA) work required for the project. The Developer has agreed to reimburse the City for \$65,000 dollars for the CEQA work. Payment is due and payable within 45 days of the effective date the Agreement.

Development Agreement

The following key terms are included in the proposed Development Agreement:

Vested Elements - Include the General Plan designation of Transit Residential and the Specific Plan Amendment. The Developer will be required to obtain an appropriate zoning and planned development permit. The Developer further understands the Development Agreement must be amended by City Council at such time the zoning for the project is approved.

Term of Agreement – Seven years from the date of the closing of the Purchase and Sale Agreement.

Development Timing – The Developer must commence construction of the first of two phases of the project within one year of the closing of the sale of the property, complete construction of the first phase within 4 years of closing, and must commence construction of the second phase within 4 years of closing and complete all construction within the 7 year term of the agreement.

Taiko/CCA – At PSA closing, the Developer will deed to the City a 0.75 acre portion of the property as the Performance Center Site, intended to be the permanent home of Taiko and the Center for the Creative Arts (CCA). The Developer will have the right to review and coordinate on the design of the building.

CCA Site Purchase Requirements – After the six years, if the CCA has not commenced construction, the Developers will have the right to purchase the site for the same cost per square foot that is agreed to for sale of the 5.2 acre project, pro-rated at \$2,659,338. The Developers may also choose to pay the City \$500,000 as earnest money to hold the site for an additional year to obtain required entitlements. Should the Developers not proceed with the development, the City retains the \$500,000. Upon deeding of the Performance Center Site to the City at the PSA closing, that site will be deed restricted with the effect that, unless and until the Developer or its successors in interest with respect to the remainder of the property acquire the same, use of the

site will be limited to uses similar to centers for the support of performing and other creative arts, or other cultural or community-based activities and organizations, or other public or private uses that are compatible with uses on the remainder of the property.

Affordable Housing – Rules regulating affordability requirements for apartment dwellings are not currently applicable. If the Developer adheres to the requirements in the Development Agreement including those associated with construction timing, the project will remain exempt from the affordable housing requirements. Should the developer determine that the second phase of the project include for-sale units, the Developer understands that the project will be subject to any City mandated inclusionary housing regulations. Additionally, if the Performance Center Site is not developed within 6 years and the Developer exercises its option to purchase that Site, all applicable affordability requirements at the time of purchase will apply to residential development of the site.

Project Parking and Proposed District Support

The Japantown project provides for its own parking needs of its residential and retail components. The project is parked at roughly 1.4 parking spaces per unit. This is higher than actual parking usage patterns of similar developments in San Jose, and higher than the previous parking ratio of 0.9 spaces per unit. Nonetheless, the community remains concerned about meeting the needs of the Japantown District as it grows in residential and retail activity. The City hired Hexagon Transportation Consultants to complete a parking study for the area around the proposed project. Hexagon counted available parking on streets within a 0.25 mile radius of the project site, a 4-5 minute walk throughout the day and evening for one typical weekday and one typical Saturday. Parking counts were conducted between the hours of 6:00 AM and 10:00 PM.

Total parking spaces available within 0.25 miles of the site equaled 1,266 spaces:

- 962 free parking spaces
- 20 potential spaces
- 53 short term parking spaces
- 214 metered spaces
- 17 restricted parking (4th street between Taylor & Jackson)

During the weekday, the peak parking demand occurred between 7:00 PM and 8:00 PM; at that peak time only 66% of available parking spaces were occupied and 427 spaces were available. Peak times on the weekday peaked between 11:30 AM and 12:30 PM and again at night between 7:00 PM and 8:00 PM. On Saturday, the demand for parking follows the same pattern with two peaks one at the lunch hour and one between 6:00 PM and 7:00 PM. Peak weekend demand reached 72% of spaces with 356 parking spaces still available.

On October 7, 2014, Williams/Dame, Hexagon and City staff met with community members to discuss parking needs in the community and share the Hexagon findings. Although the community understands that the new project “parks itself,” some expressed concern

that parking will remain a significant issue within the Japantown area. At the meeting, community members identified at least 10 different ways to increase and better manage existing parking in the area. Parking suggestions ranged from better signage, (including digital signs and way finding), repurposing unused motorcycle spaces, and opening up underutilized private parking lots to public use.

Two-Year Parking Pilot Program

City staff sees the parking discussions occurring in Japantown as a great opportunity to collaborate with the community to address community concerns and take maximum advantage of existing parking resources. Other urban village areas will have similar parking concerns as those areas intensify. Staff recommends allocating \$250,000 from the sale of the property to fund a two-year parking pilot program that would be developed in collaboration with Department of Transportation and Office of Economic Development staff and the Japantown District to help address parking needs identified by the community.

Creative Center for the Arts Parking

As mentioned above, the Corporation Yard project, including up to 425-600 apartments and up to 25,000 square feet of retail, allows for 650 parking spaces, providing an overall parking ratio of 1.4 spaces per unit. The project as proposed "parks itself." The only component of the project that does not include confirmed parking is the CCA project. The CCA plans to raise all design and construction funds anticipated for the project. CCA leadership does not anticipate being able to raise the funds required to provide underground parking for the CCA project. Staff recommends allocating \$750,000 from the proceeds of the sale of the property to be set in a reserve to fund the future construction of approximately 20 underground spaces for the CCA project. Should the CCA project not proceed, the funds allocated would revert to the City's General Fund.

EVALUATION AND FOLLOW-UP

Staff will continue to work closely with the community and Related and Williams/Dame throughout the remaining entitlement, permitting and construction process to ensure that a high quality project is designed and constructed in Japantown. Staff will also continue to work closely with the community and representatives of the Creative Center for the Arts and Taiko to assist as CCA and Taiko work to secure foundation and private funding to facilitate a permanent home for Taiko and the CCA. Once proceeds from the property sale are received, staff will return to the City Council with budget recommendations to reserve \$750,000 for parking assistance for the Creative Center for the Arts and allocate \$250,000 for a two-year pilot parking program within Japantown. The remaining sale proceeds of \$17.5 million will be assumed in the 2015-2016 budget and will be used to pay down the Phase II commercial paper debt.

POLICY ALTERNATIVES

The proposed redevelopment of the Japantown Corporation Yard by a high-quality, responsive, experienced urban developer is a long sought-after goal for the community.

Alternative #1: The proposed development is a moderate-density, high-quality, mixed-use project with an urban form. It may be possible for the City to realize greater sale value of the land from a lower-density development, such as townhomes or small-lot homes. The Council could choose to start over and seek a new developer and type of development for the site that may yield greater land sale value.

Pros: A higher potential sale price for a less dense project could provide additional funding to the Service Yards Construction and Conveyance (C&C) Tax Fund, which would further reduce the City's remaining debt obligations and help insulate the General Fund from potentially subsidizing future debt service payments should C&C Taxes decline, and provide additional capital funding for rehabilitation and repair of the City's four service yards.

Cons: A new process to identify a different developer for the site would likely take a year to complete. Negotiations for a new Purchase and Sale Agreement would likely take an additional eight to twelve months. The condition of the housing market would be uncertain. The likely less dense project would not support the desired retail component, as mixed-use housing development generally subsidizes the retail component of the project. Fewer homes would mean less stimulation of the existing Japantown businesses. It is also unclear if a reconstituted project would provide land for Taiko or CCA.

Reason for Not Recommending: Staff recommends proceeding with the more dense mixed-use project as currently proposed and planned with the community. The proposed project yields multiple desirable goals for the community as previously stated above.

PUBLIC OUTREACH/INTEREST

The redevelopment of the Japantown Corporation Yard has been contemplated since 2003. The community has been an active and engaged partner throughout the process. Approximately 109 community meetings have been held on the project over the years. The most recent community meetings took place on October 7, 2014 and October 11, 2014 with the Developers.

This memorandum will be posted on the City's website for the December 16, 2014, City Council agenda.

COORDINATION

This memorandum was coordinated with the City Attorney's Office, the Finance Department, the Department of Planning, Building and Code Enforcement, the Department of Parks, Recreation and Neighborhood Services, the Department of Transportation and the Public Works Department.

FISCAL/POLICY ALIGNMENT

This project aligns with the City's Economic Development Strategy #11 "Create More Walkable, Vibrant, Mixed-Use Environments to Spur Interaction and Attract Talent."

COST SUMMARY/IMPLICATIONS

The table below summarizes the debt obligations for the phased relocation of the Japantown Corporation Yard, and how sale proceeds would be applied.

	Outstanding Debt (November 2014)	Sale Proceeds	Remaining Debt	Est. Annual Debt Service (After Sale)
Phase I	\$12.3 million	--	\$12.3 million	\$1.7 million
Phase II	\$22.8 million	\$17.5 million	\$5.3 million	\$1.0 million

Of the \$18.5 million in total sale proceeds, \$750,000 is recommended to be reserved to assist in the construction of 20 underground parking spaces at the future Creative Center for the Arts and \$250,000 for a parking pilot program to facilitate improved parking management within Japantown. These allocations would be established at the time the money is received, currently estimated for 2015-2016.

As described previously, the cost for the City to transfer its operations from the Japantown Corporation Yard to the Central Service Yard – including land acquisition, construction, demolition and site remediation – was divided into two phases. Phase I was financed by a bond issuance in 1993 that was last refunded with Series 2003A bonds; annual debt service payments of approximately \$1.7 million will continue until October 2023. Historically, a transfer from the General Fund to the Service Yards Construction and Conveyance (C&C) Tax Fund was required to meet the Phase I debt service payments. However, starting in 2013-2014 C&C Tax revenues have increased such that a General Fund subsidy is no longer required. Phase II costs were partially financed by the issuance of \$25.2 million in commercial paper. Due to the Service Yards C&C Fund's limited resources, the City has paid down only \$2.4 million in principal for the Phase II costs given the expectation that land sale proceeds would pay off all or a significant portion of the outstanding principal. Consistent with this approach, the sale proceeds of \$17.5 million will be assumed in the 2015-2016 budget and will be used to pay down the Phase II commercial paper debt. The estimated remaining balance of \$5.3 million will be paid off over a seven year period.

In addition to the sales proceeds, within 45 days of executing the Purchase and Sale agreement the Developer will pay \$65,000 to reimburse the City for the analysis undertaken to complete the California Environmental Quality Act (CEQA) work required for the project. These funds are recommended to be allocated to the Office of Economic Development Non-Personal/Equipment appropriation, as that office completed the work.

With the sale of the property, the City is expected to receive \$87,000 in property tax and construction and conveyance tax one year after the close. As units are built and come on to the property tax role, it is anticipated that the project will generate \$175,000 in annual property and sales taxes. During construction phase, a one-time tax revenue of \$3.3 million from Construction Excise Tax and \$2.1 million from the Building and Structure Construction Tax, will combine for a total of \$5.4 million in construction taxes.

BUDGET REFERENCE

The table below identifies the General Fund revenue and expenditure appropriations that will be adjusted and created in accordance with the recommendation and the discussion included in the Cost Summary/Implications section. No appropriation actions are recommended to recognize and allocate the sale proceeds at this time, as the proceeds are not anticipated to be received in 2014-2015.

Fund #	Appn. #	Appn. Name	Total Appn.	Rec. Budget Action	2014-2015 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
001	0181	Non-Personal / Equipment	\$701,384	\$65,000	IX-27	10/07/2014, Ord. No. 29496
001	R130	Other Revenue	\$123,343,559	\$65,000	VI-48	11/04/2014, Ord. No. 77203

CEQA

An Addendum to the Japantown Corporation Yard Redevelopment Project Final Environmental Impact Report, Resolution No. 74384.

/s/

KIM WALES
Deputy City Manager/
Director Economic Development



JENNIFER A. MAGUIRE
Deputy City Manager/
Budget Director

I hereby certify that there will be available for appropriation in the General Fund in the Fiscal Year 2014-2015 moneys in excess of those heretofore appropriated therefrom at least for \$65,000.



JENNIFER A. MAGUIRE
Deputy City Manager / Budget Director

For questions, please contact Nanci Klein, Assistant Director, at (408) 535-8184.